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THE JOHNSON LEGACY REPORT

Building Trust for Generations

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INVESTMENT ACCOUNT BASICS FOR THE YOUNGER GENERATION

As your children and grandchildren approach early adulthood it's important they become educated and confident investors early in their lives. Establishing short and long term goals and having a strategy to achieve those goals is an important process for everyone. This month we are focussing on the basic types of investment accounts and some of their characteristics, this is a good learning tool you may want to **share with younger members of your family** and it's a good reminder for you too!

Non-registered account

This investment account doesn't offer any tax benefits, meaning that the income earned or the capital gains generated during a fiscal year will have to be declared on your income tax. You must be 19 years of age to open such an account in BC. Such an account can be opened with a bank or an independent investment dealer. *Your investment advisor will ask you many questions when you open an investment account. From money laundering to suitability, there are security checks required by the Investment Industry Regulatory Organization of Canada (IIROC).*

Registered Retirement Savings Plan (RRSP): Start planning for retirement early

This type of account is set up by a financial institution and registered with the government. You can contribute up to 18% of your income up to a set maximum per year.

The major advantage of this account is that your contribution is tax deductible. Furthermore, income from interest and dividends, as well as capital gains earned in the RRSP are exempt from tax as long as the funds remain in the plan.

To recap, contributions are tax deductible and growth is sheltered from taxes. Taxes are applied when you withdraw money from the plan, but the compounding effect of having the money sheltered for years makes it a good investment vehicle. The amount of taxes paid will vary according to your tax bracket.

Contributions are allowed until the age of 71. At the end of the year you turn 71, you will be required to convert the RRSP into a registered retirement income fund (RRIF).

Tax-Free Savings Account (TFSA): Withdrawals tax-free

For individuals who are 19 years of age and older in BC, the TFSA is a vehicle to set money aside tax-free throughout their lifetime. Unlike contributions made to an RRSP, TFSA contributions are not deductible for income tax purposes but the income and capital gains generated by the investments are tax-free, even when it is withdrawn. People earning low salaries are better off saving inside a TFSA than an RRSP, but both investment vehicles make good sense for most Canadian investors. Administrative or other fees in relation to your TFSA and any interest or money borrowed to contribute to your TFSA are not tax deductible. You can contribute each year up to your TFSA contribution room, the limit for 2018 is $5,500.

TFSA or RRSP

When it comes to RRSP contributions, take a look at your marginal tax rate for the tax year in which you plan to claim the tax deduction. Talk to your advisor about your current situation. If you expect your income to increase substantially in the years to come, it could be beneficial not to contribute in order to accumulate contribution room for when you will be in a higher tax bracket. TFSAs are much more flexible when it comes to withdrawals. You can withdraw any contributions you have made plus any growth on your investments, and add them back later on. However, if you have contributed the maximum amount allowed to your TFSA and you withdraw any of your money, you must wait until the following year to contribute again, otherwise you may incur a tax penalty from the Canada Revenue Agency.

RRSPs, on the other hand, don't allow that much flexibility. There are three main consequences when withdrawing from an RRSP:

- You lose the benefit of future tax-deferred compounding effect in your plan
- You face a withholding tax of up to 30%
- You can't recontribute the funds withdrawn without using up additional RRSP contribution room

RRSP Home Buyer's Plan

Allows first-time homeowners to withdraw up to $25,000 from an RRSP to purchase or construct a new home. Amounts withdrawn must be repaid over a maximum of 15 years. This plan lets you "borrow" money from your RRSP without paying taxes on the money and later return the withdrawn funds to your plan.

RRSP Lifelong Learning Plan

You can withdraw up to $10,000 per year ($20,000 total) to finance full-time education for you or your spouse or partner, repayable over 10 years.

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Market Pulse:

Major Stock Indexes	Level/Price	YTD Return Ending June 29/18
S&P/TSX Comp	16,278	0.42%
S&P 500 Comp	2,727	1.99%
Dow Jones Industrial Avg	24,307	-1.67%
Major Bond Index		
FTSE Universe	1,043	0.61%
Commodities		
Crude Oil - WTI (US$/bbl)	$74.80	23.80%
Gold (US$/oz.)	$1,248	-4.72%
N. Gas (US$/MMBtu)	$2.86	-3.05%
Currency		
Canadian Dollar (CAD/USD)	$0.76	-4.40%

Source: Bloomberg.

Personal Updates:

Lori is enjoying the Okanagan summer with fun filled activities and still finds ways to support her community in the meantime. Raymond James sponsored the Gorges – Comeau Charity Home Base Slow- Pitch Tournament this year in Kelowna so Lori spent some of her time volunteering at the event. She will also attend 100 Women Who Care event to decide what local charity will receive funding from the group that quarter.

With the kids school and all of their after school activities done for the summer, Jay and Brianne are enjoying not having to chauffeur them around seven days a week. The extra free time has not allowed Jay to do any kind of biking, however, as other things seem to keep getting in the way. But there is still lots of time for Jay to get into riding shape before The Ride To Conquer Cancer at the end of August. A huge thank you to those who have already donated! If you wish to make a donation to Jay's ride benefiting the BC Cancer Foundation, please click HERE.